

# FINANCE COMMITTEE BRIEFING

February 16, 2021  
Finance Team

# Presentation Overview

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- Introduction to the Finance Committee
- Overview of General Fund Revenue
  - ▣ Personal Income Tax
  - ▣ Corporate Income & Franchise Tax
  - ▣ Sales Tax
  - ▣ Local Revenues

# INTRODUCTION TO THE FINANCE COMMITTEE

Trina Griffin  
Legislative Analysis Division

# Finance Committee Staff

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## Legislative Analysis Division 200 LOB; 919-733-2578

- Cindy Avrette
- Trina Griffin
- Greg Roney
- Nick Giddings
- Melissa Zbikowski

## Legislative Drafting Division 401 LOB; 919-733-6660

- Dan Ettefagh

## Fiscal Research Division 203 and 206 LOB; 919-733-4910

- Rodney Bizzell
- Jonathan Tart
- Denise Canada
- Barry Boardman
- Emma Turner

# Bills That Must Be Referred to Finance

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## House Rule 38

- ☐ Raises revenue
- ☐ Reduces revenue
- ☐ Levies a tax
- ☐ Authorizes levy of tax, assessment, or fee
- ☐ Authorizes issuance of bonds

## Senate Rule 42

- ☐ Levying taxes
- ☐ In any manner affects taxing power of State or its subdivisions
- ☐ Imposing or raising fees or other revenues payable to the State, agencies, licensing boards, or any of its subdivisions
- ☐ Providing for bond issues

# Bills NOT Required to go to Finance

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- Civil penalties, criminal fines, forfeitures
- Relating to fees charged by a nongovernmental entity



# Occupancy Tax Subcommittee

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## House Finance

- In existence for over 20 years
- Key components of guidelines include:
  - ▣ Rate – 6% max combined county and city rate
  - ▣ Use – 2/3 promotion; 1/3 tourist-related expenditures
  - ▣ Administration – Tourism Development Authority



## Senate Finance

- First adopted in 2017
- Key components of guidelines include:
  - ▣ Rate – 6% max combined county and city rate
  - ▣ Use – 1/3 promotion; 2/3 tourist-related expenditures
  - ▣ Administration – Tourism Development Authority

# Annexation/Deannexation Subcommittee

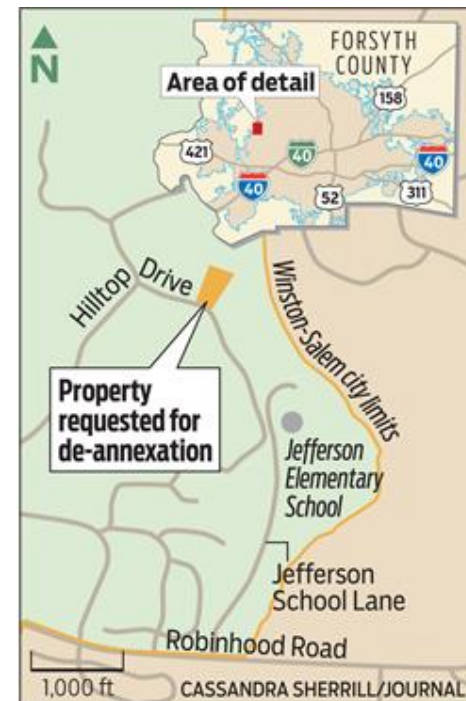
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## House Finance

- ❑ Established in 2013
- ❑ Bills historically allowed for one of the following reasons:
  - ▣ Agreement of interested parties
  - ▣ Error correction
  - ▣ Changed circumstances

## Senate Finance

- ❑ No similar subcommittee

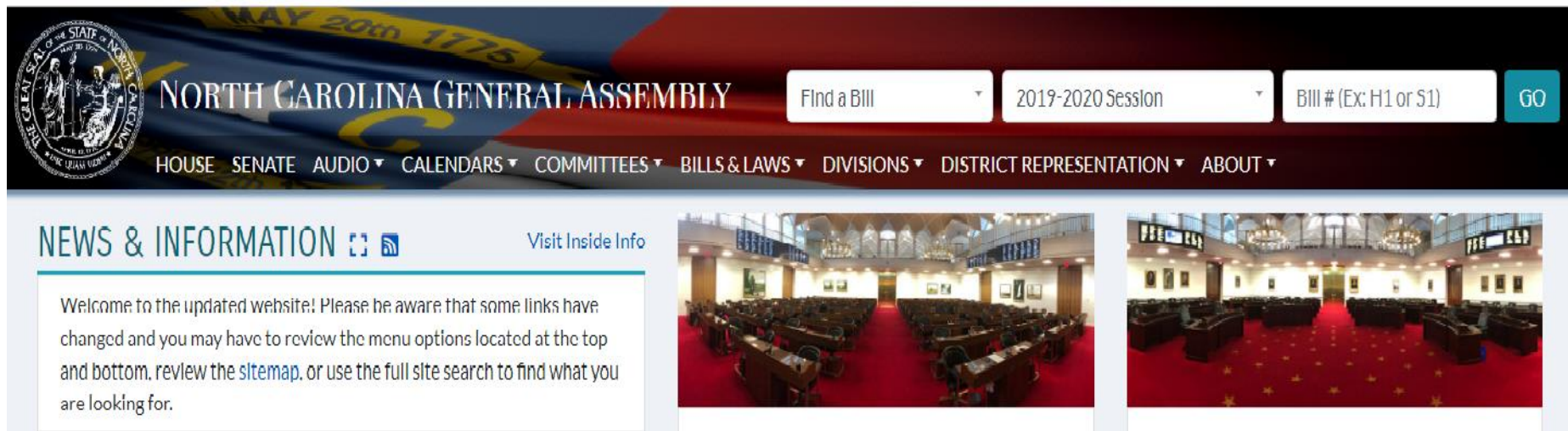




# Resources

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- NCGA website
  - [Committee Website](#)
  - [Summaries of Substantive Legislation](#)
  - [Fiscal Research Website](#)



The screenshot displays the official website of the North Carolina General Assembly. The header features the state seal on the left, the text "NORTH CAROLINA GENERAL ASSEMBLY" in the center, and a navigation bar on the right with search and session filters. Below the header is a horizontal menu with links to various legislative functions. The main content area is titled "NEWS & INFORMATION" and includes a welcome message and two photographs of the legislative chamber.

**THE GREAT SEAL OF THE STATE OF NORTH CAROLINA**  
MAY 20th 1775

**NORTH CAROLINA GENERAL ASSEMBLY**



Find a Bill ▼ 2019-2020 Session ▼ Bill # (Ex: H1 or S1) **GO**

HOUSE SENATE AUDIO ▼ CALENDARS ▼ COMMITTEES ▼ BILLS & LAWS ▼ DIVISIONS ▼ DISTRICT REPRESENTATION ▼ ABOUT ▼

## NEWS & INFORMATION

Visit Inside Info

Welcome to the updated website! Please be aware that some links have changed and you may have to review the menu options located at the top and bottom, review the [sitemap](#), or use the full site search to find what you are looking for.

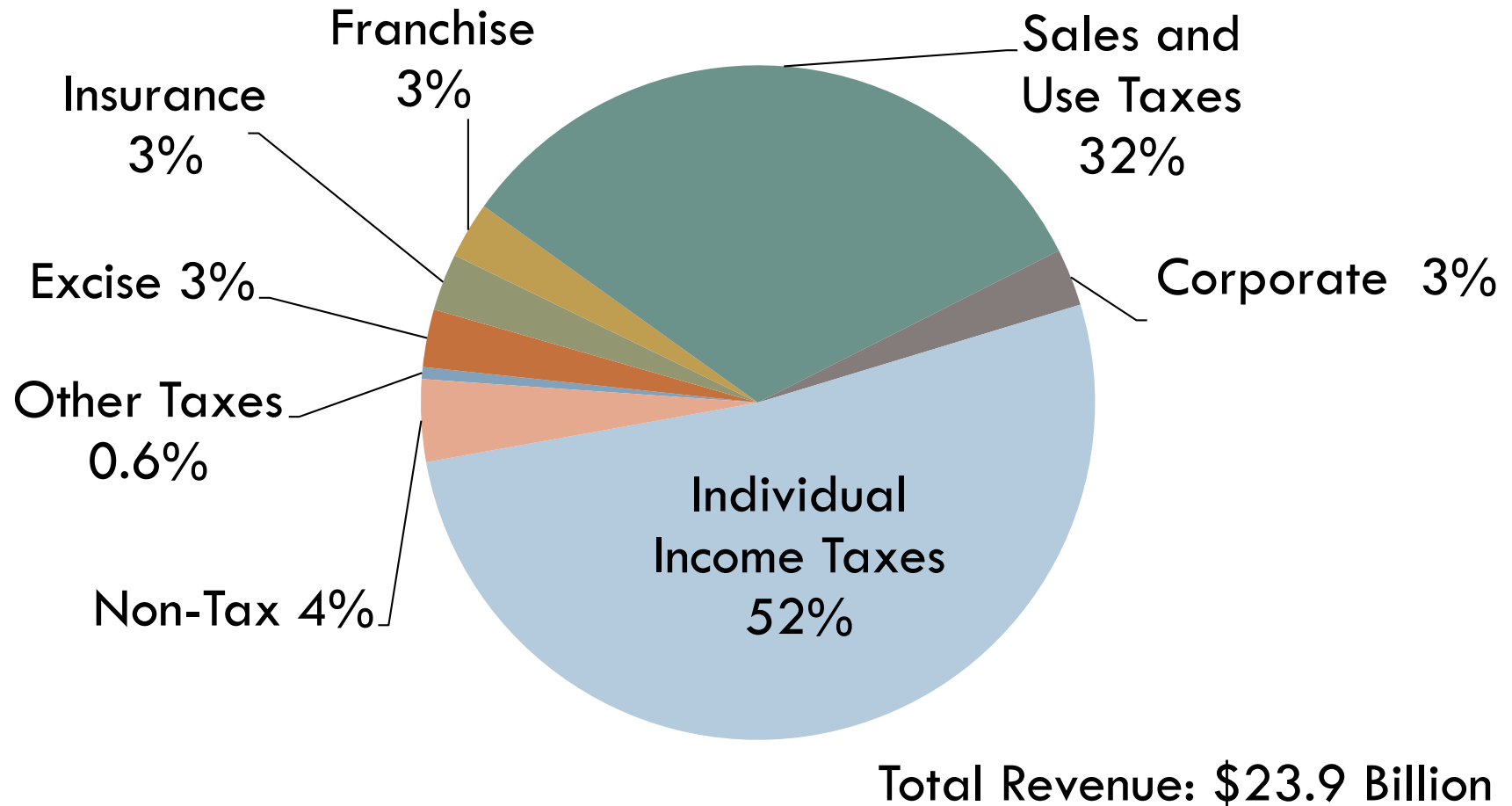


# OVERVIEW OF GENERAL FUND REVENUE SOURCES

Barry Boardman, Ph.D.  
Fiscal Research Division

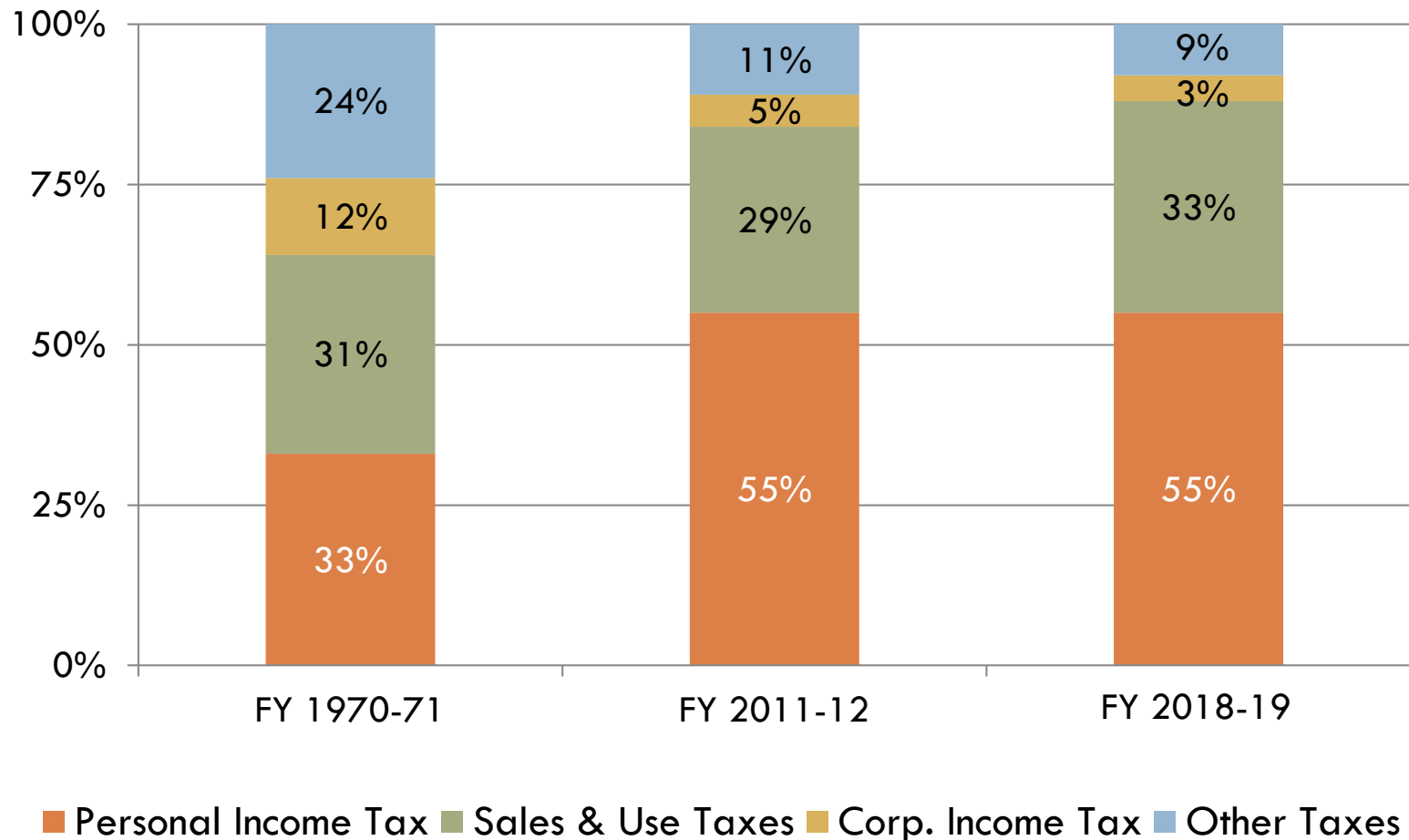
# General Fund Revenue FY 2019-20

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# The State's Changing Tax Structure

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Source: North Carolina General Assembly Fiscal Research Division

# CONSENSUS REVENUE FORECAST

Barry Boardman, Ph.D.  
Fiscal Research Division

# The Consensus Forecasting Process

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- Statutory Guidelines do not address the budget revenue forecasts
- Fiscal Research and the Office of State Budget and Management develop independent forecasts
- Prior to release of Governor's biennial budget, the Consensus Forecast group meets to develop a consensus

# The Consensus Forecasting Process

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- In early May, after April receipts have been recorded, the legislature and/or Governor may request a revised consensus forecast
  - April “surprise” from individual and corporate income tax payments
- Depending on the budget process, an additional revision to the General Fund forecast after June’s collections may be requested
- In even-numbered years, the forecast is revised for the second year of the biennium. The revision usually takes place in early May, after April’s receipts are tabulated.

# General Fund Consensus Forecast

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Fiscal Year	Revenue (\$ millions)	Y/Y Change (\$ millions)	Percent Change
2020-21 (est.)	\$27,602.6	\$3,663.3	15.3%
2021-22 (est.)	\$27,350.6	(\$252.0)	(1.0%)
2022-23 (est.)	\$28,461.5	\$1,110.9	4.0%



# General Fund Consensus Forecast

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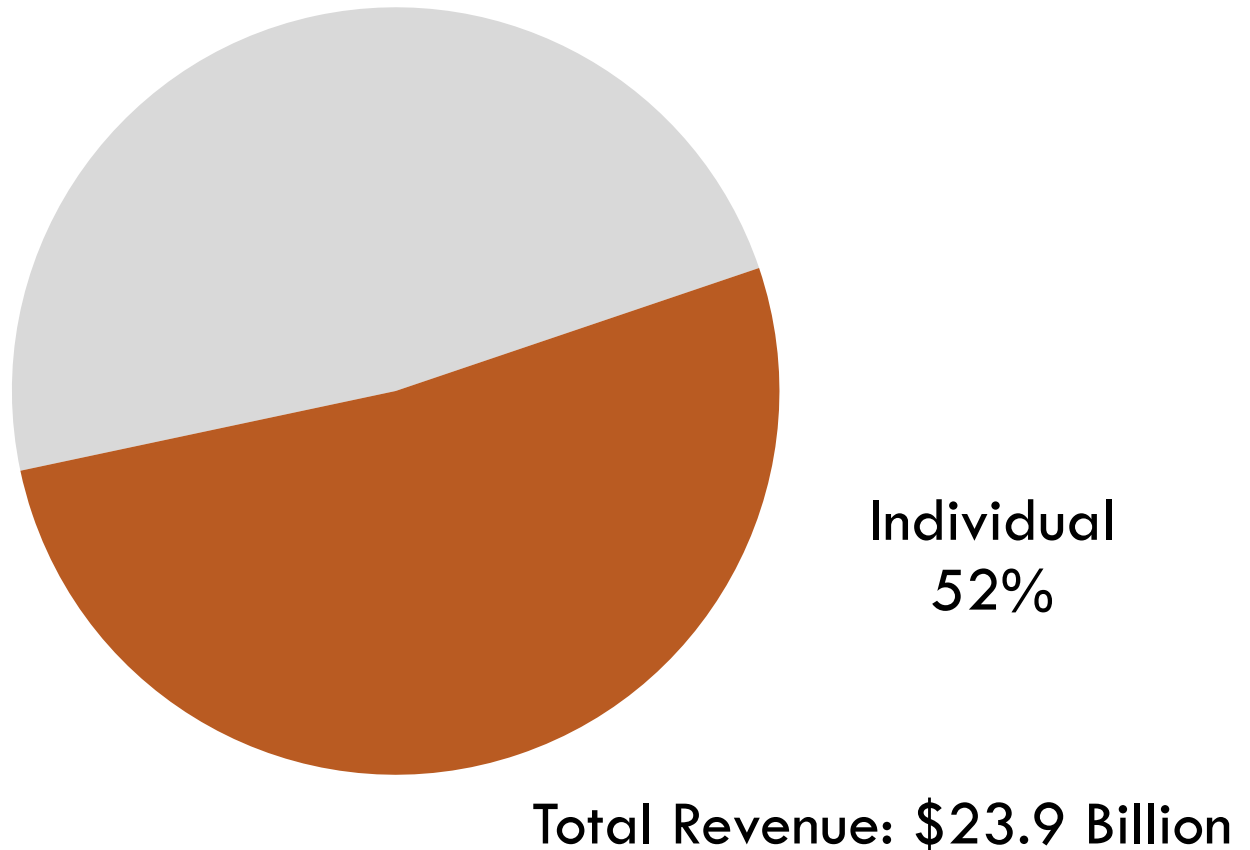
- FY 2020-21 is expected to be \$4.13 billion over the May 2020 forecast
- After adjusting for delayed payments y/y change:
  - ▣ Individual Income tax up 3.8%
  - ▣ Sales and Use tax 8.0%
  - ▣ Corporate Income and Franchise tax 4.9%
  - ▣ Total GF Revenue up 6.0%
  - ▣ FY 2021-22 adjusted growth of 3.1%
- FY 2022-23 forecast growth of 4.0%

# PERSONAL INCOME TAX

Greg Roney  
Legislative Analysis Division

# General Fund Revenue Source: Individual Income Tax, FY 2019-20

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# Tax Calculation

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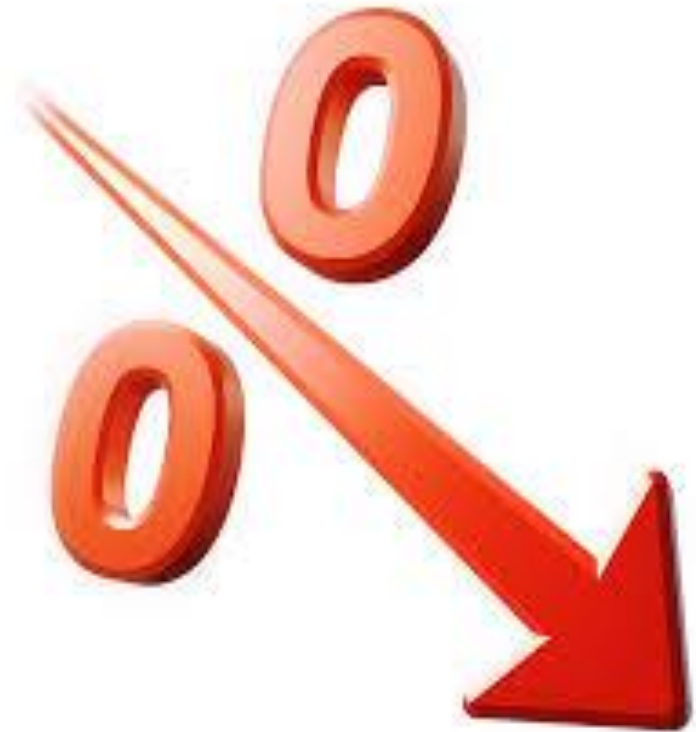
## Personal Income Tax

- Individuals pay each calendar year
  - ▣ Tax Rate: 5.25% Flat Rate
  - ▣ Tax Base: Federal AGI (Pickup)
  - ▣ Tax Calculation
    - Standard (MFJ \$21,500) v. Itemized Deductions (Interest, Property Tax, Charitable, Medical)
    - NC Modifications
  - ▣ Tax “Expenditures”

# Tax Rate Changes

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- 2013: 6% to 7.75%
- 2014: **Flat Rate 5.8%**
- 2015 & 2016: 5.75%
- 2017 & 2018: 5.499%
- 2019 and after: 5.25%
- NC Constitution cap: 7%



# Internal Revenue Code (IRC) Update

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- NC law references the federal Internal Revenue Code (IRC) to determine adjusted gross income (AGI) by referencing a version of the IRC by date.
- Annual IRC update legislation allows the General Assembly to review federal legislation to determine if NC law will conform or decouple from federal law changes.
- NC law currently references the IRC enacted as of 5/1/20.

# State Tax Exemptions

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- SSI Benefits
- Interest on US obligations
- Income from an Indian tribe
- Interest on NC and local government obligations
- Interest on obligations of a nonprofit educational institution chartered in NC
- Government retirement income received by employees vested in retirement system by August 12, 1989 (Bailey)

# Standard v. Itemized Deduction

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## □ Standard Deduction

### ▣ 2020 and after

- MFJ: \$21,500
- HH: \$16,125
- Single: \$10,750
- Filing separate: \$10,750

## □ Itemized Deduction

### ▣ Charitable Contributions

- Federal rules apply

### ▣ Medical and Dental Expenses

- Federal rules apply
- 7.5% floor

### ▣ Capped at \$20,000

- Home mortgage interest
- Property taxes paid on real estate



# Child Deduction

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- Additional NC deduction for children if:
  - ▣ Meet federal rules for child tax credit
  - ▣ Allowed for each child
  - ▣ Maximum value: \$2,500 per child
  - ▣ Completely phased out at
    - MFJ: \$120,000
    - HH: \$90,000
    - Single: \$60,000
    - Married, separate: \$60,000

# Tax “Expenditures”

## NCDOR FY20-21 Estimate (\$ millions)

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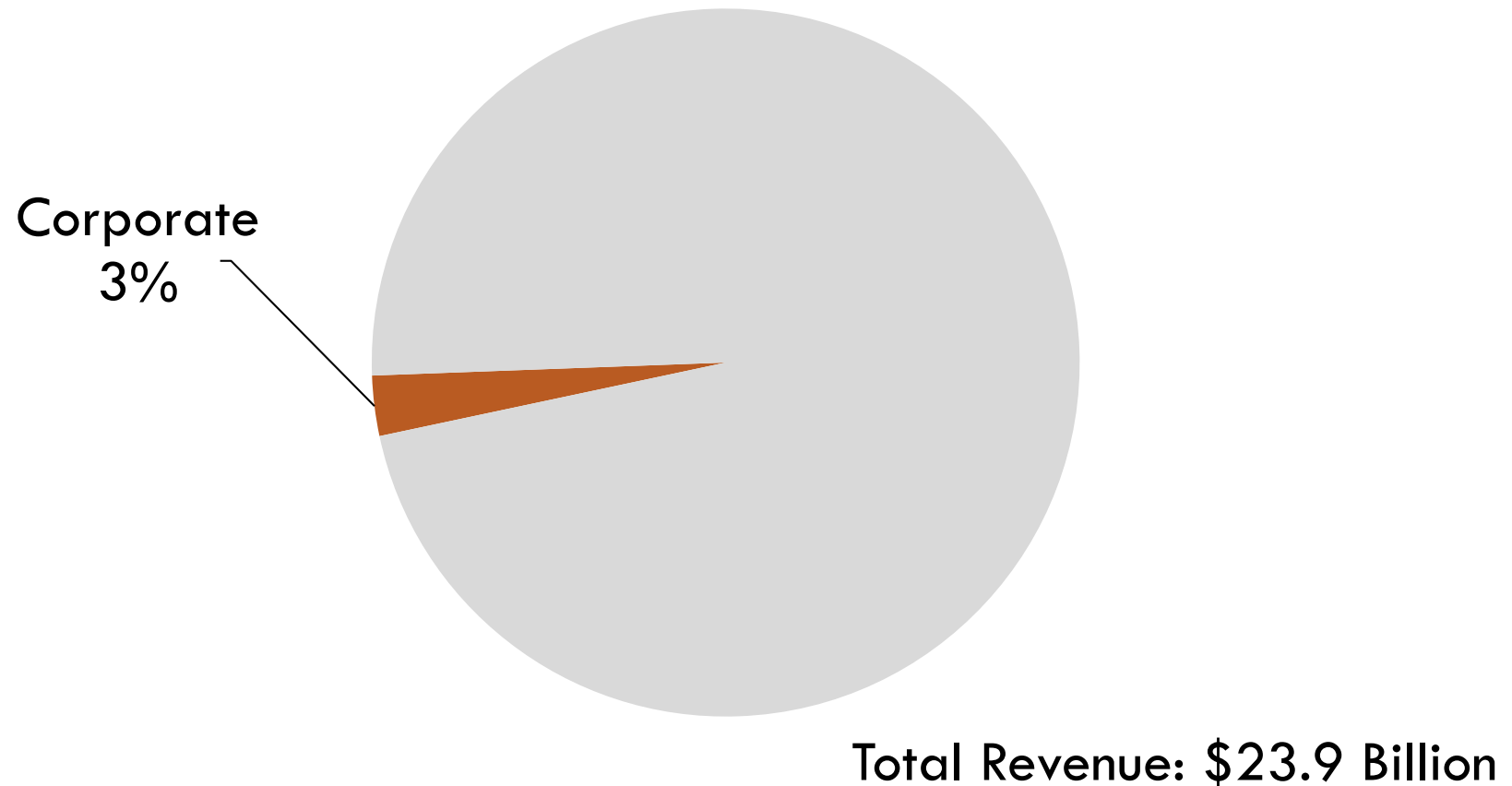
- Standard Deduction in Excess of 50% of 2019 Federal \$1,368.1M
- SSI in Excess of Federal Limit \$519.5M
- Charitable Deduction \$236.0M
- Child Deduction \$145.7M
- Mortgage Interest Deduction \$89.9M
- Medical and Dental Deduction \$60.5M
- Property Tax Deduction \$56.6M
- Bailey Retirees \$300.6M (required by court order)

# CORPORATE INCOME TAX

Jonathan Tart  
Fiscal Research Division

# General Fund Revenue Source: Corporate Income Tax, FY 2019-20

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# Computing NC Taxable Income

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- Start with federal taxable income
- Adjust for differences in federal and state law (like personal income tax, IRC Update)
- Apportion income to NC if corporation does business in multiple states
- Apply 2.5% tax rate.

# Business Tax Base: Before and After Reform

## Tax Base Before

Local privilege license taxes

Privilege tax on banks

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### Credits & Deductions Available

Tax credits for ports charges, recycling oyster shells, renewable fuels, work opportunity, interactive digital media, Article 3J, qualified business venture, film, renewable energy, historic and mill rehabilitation, low income housing, research & development, construction of dwelling units for handicapped, real property donations, conservation tillage equipment, gleaned crops, and construction of poultry composting facility,

Deductions for amortization in excess of depreciation allowed under the Code on the cost of sewage or waste treatment plant, air cleaning devices, recycling facilities, emergency facilities acquired before 1955, reforestation and cultivation of commercially grown trees; eligible income of an international banking facility, tobacco marketing assessments, settlement agreements, hurricane assistance, interest earned on deposits by a savings and loan association

## Tax Base After

### Credits & Deductions Available

Historic rehabilitation, miscellaneous others that are administrative in nature

# Tax Reform and Corporate Income Tax Rate Changes

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- 6.9%
  - ▣ 2013 tax rate
- 6%
  - ▣ 2014 tax rate
- 5%
  - ▣ 2015 tax rate
- 4%
  - ▣ 2016 tax rate
- 3%
  - ▣ 2017 and 2018 tax rate
- 2.5%
  - ▣ 2019 and after

# Corporate Income Tax

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- About 80,000 returns filed, but 2/3 don't pay tax.
- Corporations with NC taxable income of over \$1 million pay about 90% of the total corporate income tax revenue, but they make up less than 3% of the corporations filing returns.
- Most of corporate income tax collections come from 500 or so large companies.



# Apportionment

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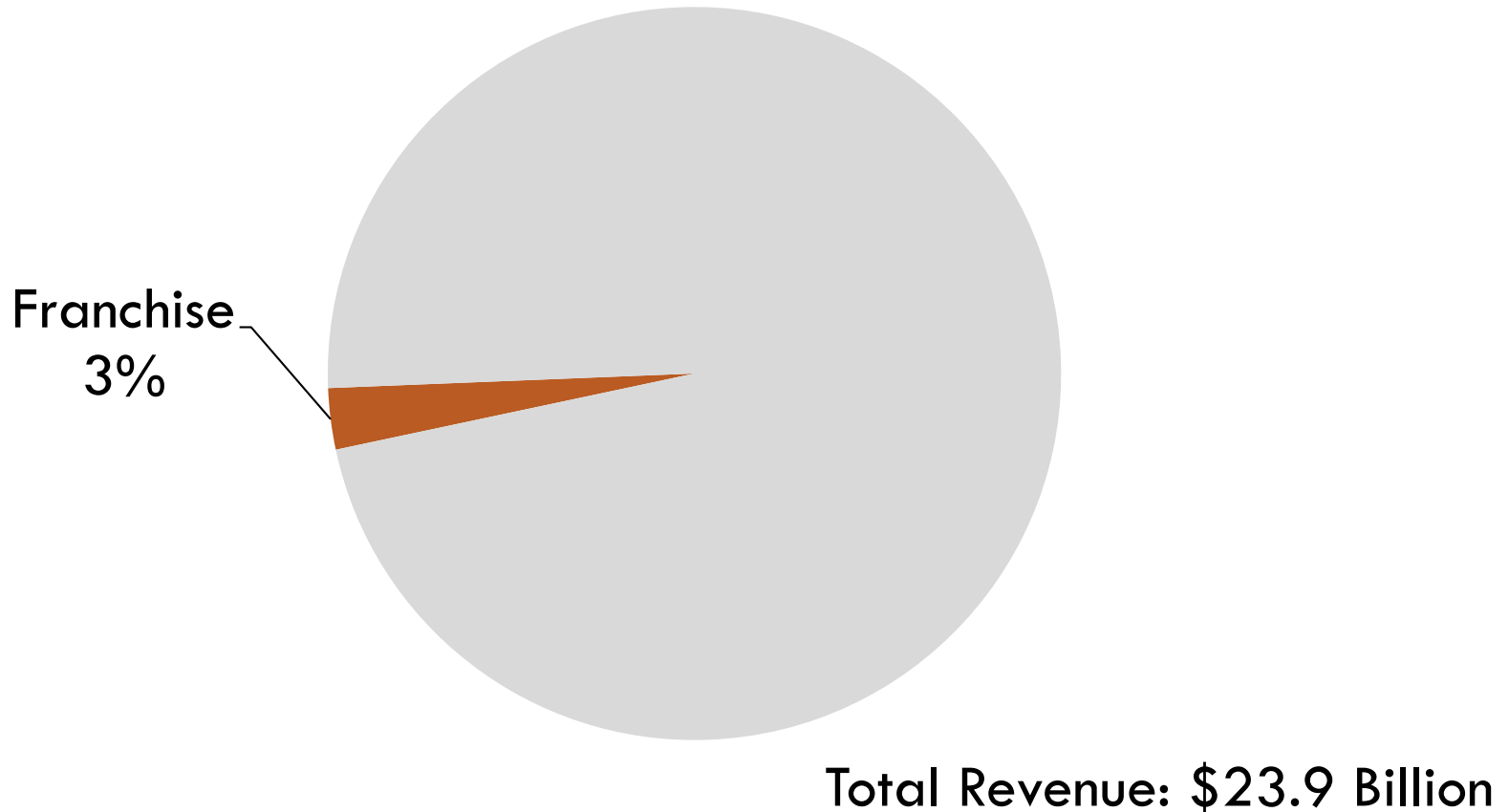
- When a corporation operates in multiple states, the income is apportioned to NC for tax purposes
- Apportionment is based on the company's NC market-share
- Example: If 2% of a multistate company's revenue is derived from NC, 2% of its income is subject to NC tax at a 2.5% tax rate

# FRANCHISE TAX

Jonathan Tart  
Fiscal Research Division

# General Fund Revenue Source: Franchise Tax, 2019-20

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# Who Pays Franchise Taxes?

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- C corporations (about 80,000)
- S corporations (about 175,000)
- Limited liability companies (LLC), partnerships, sole proprietorships are exempt from tax
  - An LLC pays \$200 annual report filing fee in lieu of Franchise Tax

# Franchise Tax Base

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- The tax base is net worth apportioned to NC using the apportionment percentage determined for income tax, but cannot be less than:
  - ▣ Book value of NC real and tangible personal property, less outstanding debt created to acquire or improve the real property
  - ▣ 55% of the appraised value of NC real and tangible personal property

# Franchise Tax

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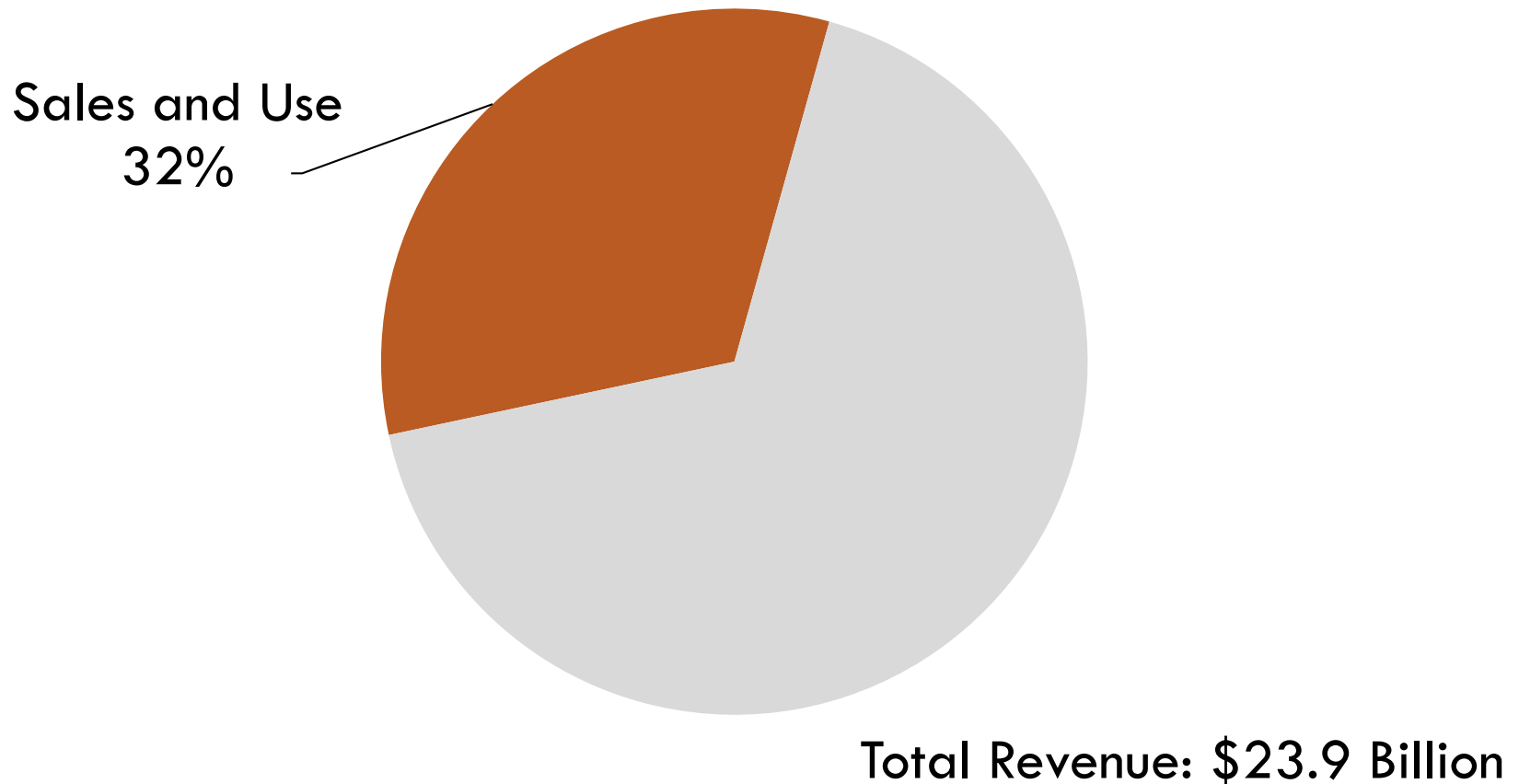
- Tax rate is generally 0.15% (\$1.50 per \$1,000)
- Minimum tax is \$200
- S corporations have a maximum tax of \$200 on the first \$1 million of the tax base
- Maximum tax on holding companies is \$150,000

# SALES TAX

Trina Griffin  
Legislative Analysis Division

# General Fund Revenue Source: Sales and Use Taxes, FY 2019-20

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# Sales and Use Tax Rates

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- State General rate is 4.75%
  - ▣ Items that are subject to State sales and use tax are also subject to the local sales and use tax. Local rates vary.
- Preferential Rates
  - ▣ Boats, 3% with \$1,500 cap
  - ▣ Aircraft, general rate capped at \$2,500
  - ▣ Modular and manufactured homes, jet engines – not subject to local sales tax
- Combined General Rate – 7%
  - ▣ Spirituous Liquor
  - ▣ Telecommunications
  - ▣ Video Programming
  - ▣ Electricity & Piped Natural Gas
  - ▣ Aviation Gasoline & Jet Fuel







# Base

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- Tangible personal property
  - ▣ No State sales tax on groceries
- Digital property
- Some services
  - ▣ Electricity & piped natural gas
  - ▣ Telecommunications
  - ▣ Video Programming
  - ▣ Repair, Maintenance, and Installation Services
- Accommodations
- Entertainment Activity/Admission Charges
- Service Contracts



# Local Sales Tax Rates and Distributions

Article	Rate	Purpose	Distribution	Levied By
1 <sup>st</sup> 1 cent Art. 39		Any lawful purpose	Point of collection; shared with cities	100 counties
1 <sup>st</sup> ½ cent Art. 40		70% - general 30% - school capital	Per capita; shared with cities	100 counties
2 <sup>nd</sup> ½ cent Art. 42		40% - general 60% - school capital	Point of collection; shared with cities	100 counties
¼ cent Art. 46		Any lawful purpose	Point of collection – <i>only distributed to counties.</i>	46 counties
½ cent or ¼ cent Art. 43	 or 	Public transportation	Per capita - Among county and cities in county that operate a public transportation system	4 counties

# Sales Tax Rates Across the Counties

Counties	State	+	Local	=	Total
<u>52 Counties Levy Articles 39, 40, &amp; 42:</u> Alamance; Alleghany; Avery; Beaufort; Bladen; Brunswick; Burke; Caldwell; Camden; Carteret; Caswell; Chowan; Cleveland; Columbus; Craven; Currituck; Dare; Davie; Franklin; Gates; Granville; Guilford; Henderson; Hoke; Hyde; Iredell; Johnston; Lenoir; Macon; McDowell; Mitchell; Nash; Northampton; Pamlico; Pender Perquimans; Person; Polk; Richmond; Scotland; Stokes; Transylvania; Tyrrell ; Union; Vance; Warren; Washington; Watauga; Wayne; Wilson; Yadkin; Yancey.	4.75%	+	2.0%	=	6.75%
<u>44 Counties Levy Articles 39, 40, 42, &amp; 46:</u> Alexander; Anson; Ashe; Bertie; Buncombe; Cabarrus; Catawba; Chatham; Cherokee; Clay; Cumberland; Davidson; Duplin; Edgecombe; Forsyth; Gaston; Graham; Greene; Halifax; Harnett; Haywood; Hertford; Jackson; Jones; Lee; Lincoln; Madison; Martin; Montgomery; Moore; New Hanover; Onslow; Pasquotank; Pitt; Randolph; Robeson; Rockingham; Rowan; Rutherford; Sampson; Stanly; Surry; Swain; Wilkes.	4.75%	+	2.25%	=	7.0%
<u>2 Counties Levy Articles 39, 40, 42, &amp; 43:</u> Mecklenburg and Wake	4.75%	+	2.5%	=	7.25%
<u>2 Counties Levy Articles 39, 40, 42, 43, &amp; 46:</u> Durham and Orange	4.75%	+	2.75%	=	7.50%

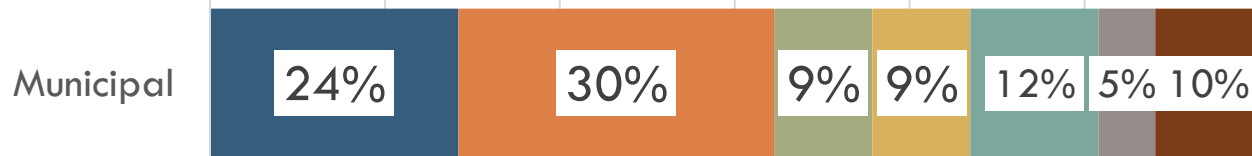
# LOCAL REVENUE

Rodney Bizzell  
Fiscal Research Division

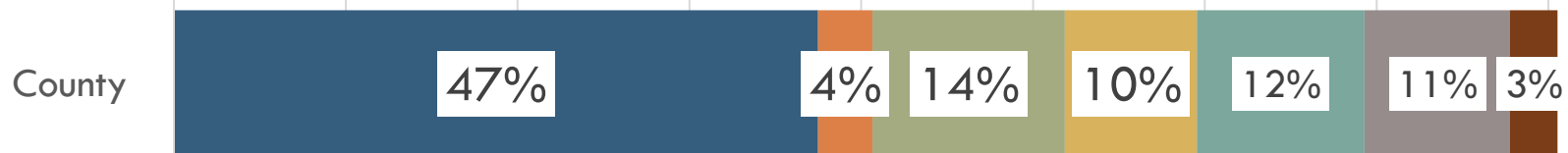
# Local Revenue Sources, FY 2018-19

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**Municipalities: Total Statewide \$12.0 Billion**



**Counties: Total Statewide \$16.1 Billion**



■ Property Taxes  
■ Sales Tax  
■ Intergovernmental  
■ Other Miscellaneous

■ Utilities (Municipals) / Other Taxes (Counties)  
■ Sales & Services  
■ Debt Proceeds

Source: Dept. of State Treasurer

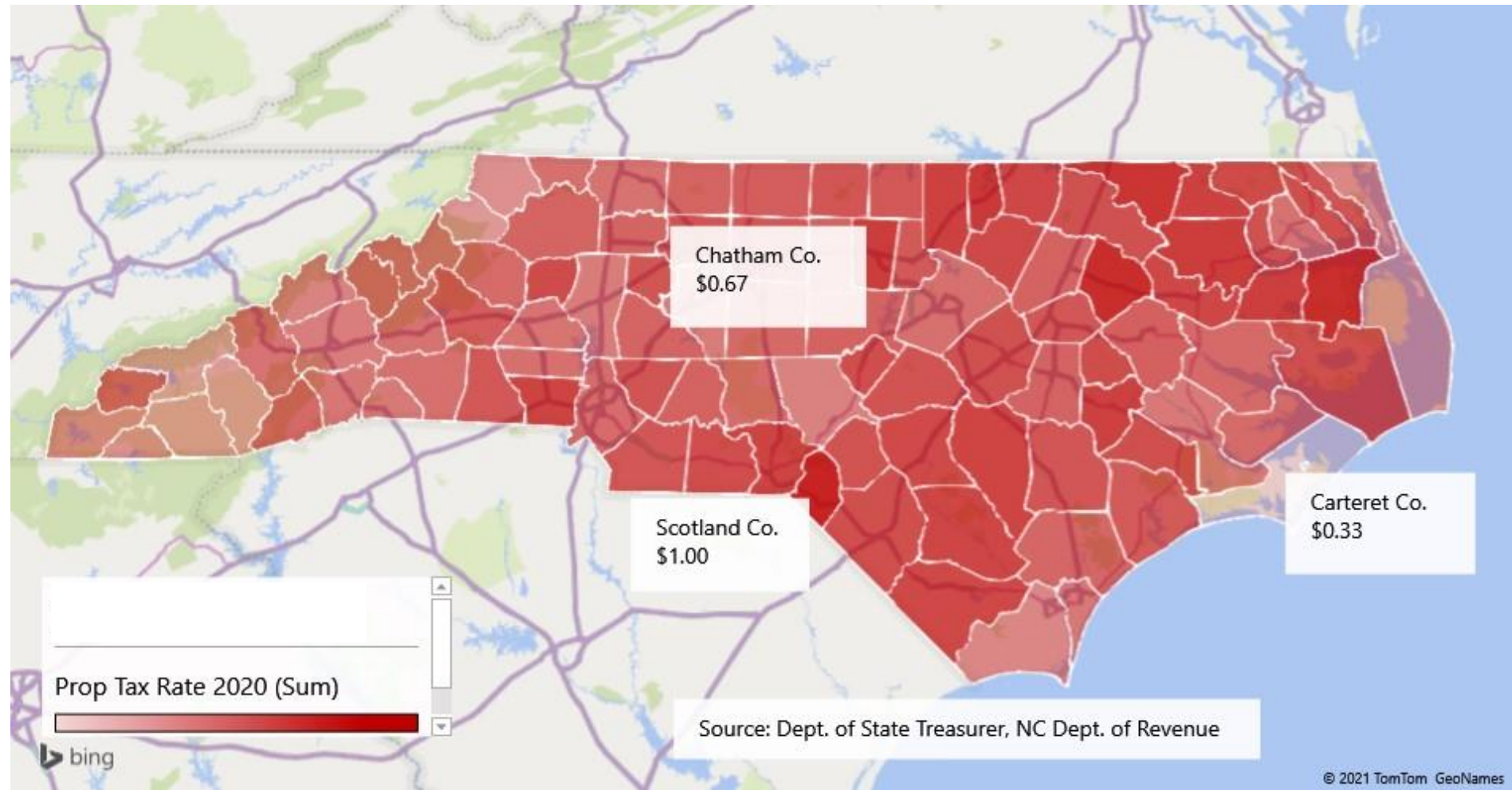
# Local Taxes: Property Tax Basics

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- Most stable local revenue source.
- Real property must be revalued at least every 8 years.
- Classes of property must be taxed uniformly.
- Only the General Assembly has authority to exempt classes of property.
- Each county or municipality determines the property tax rate annually.

# Property Tax Rates FY 2019-20

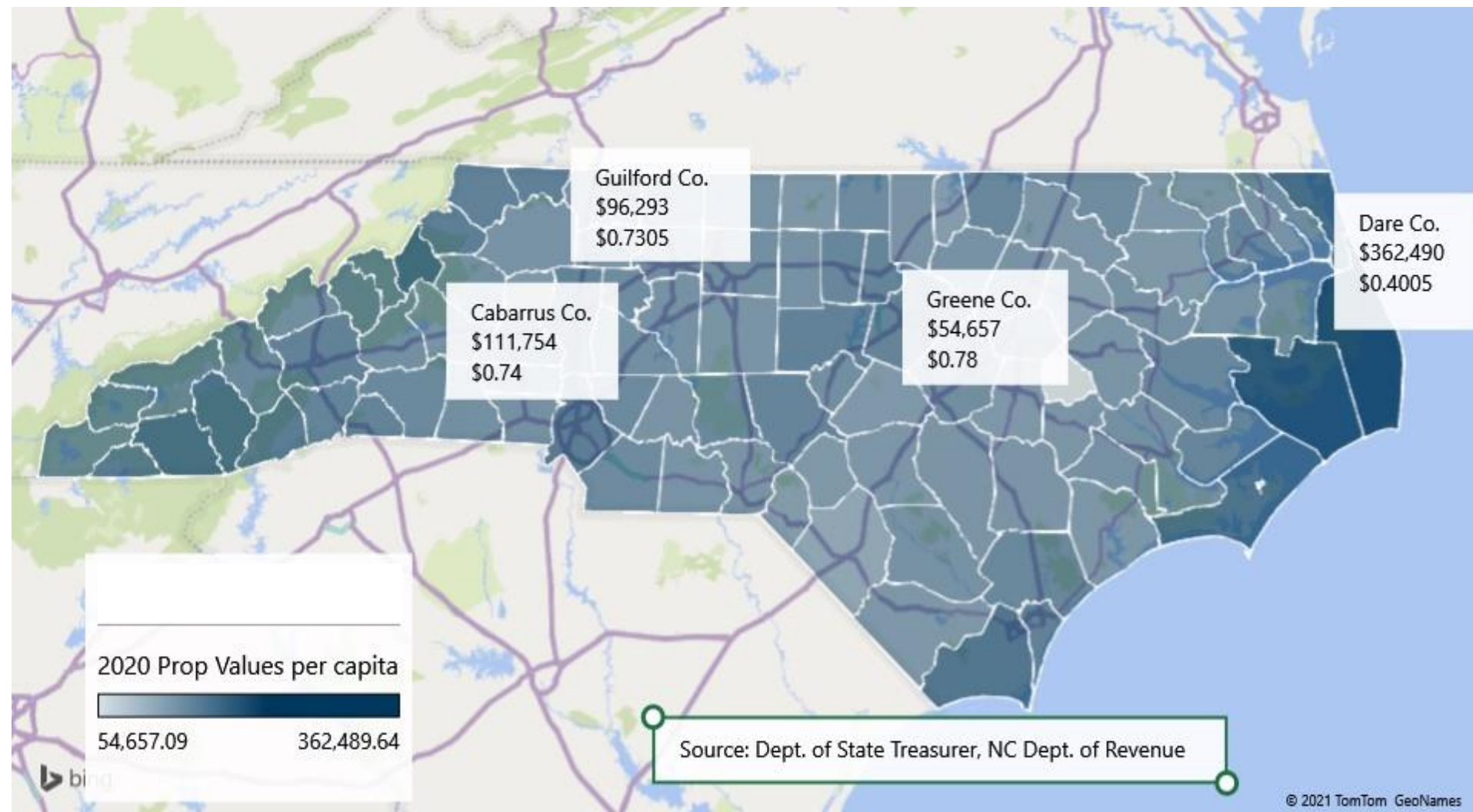
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# Property Tax Base per Capita

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# Important Property Tax Dates (FY 2020-21)

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- January 1, 2020 – Date as of which value, ownership, situs and taxability of real and personal property are determined.
- July 1, 2020 – Local governments set tax rates.
- September 1, 2020 – Taxes become due.
- January 6, 2021 – Unpaid taxes become delinquent, 2% interest accrues.
- February 1 – Monthly interest accrues (3/4% each month) on delinquent taxes.

# Residential Property Tax Exclusions

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- Elderly and Disabled
  - ▣ Aged 65 and over or permanently disabled
  - ▣ Income ceiling (\$31,500)
  - ▣ \$25,000 or 50% exclusion
- Disabled Veteran
  - ▣ 100% total and permanent disability
  - ▣ \$45,000 exclusion
- Circuit Breaker
  - ▣ Deferral of taxes above 4% to 5% of income.

# Revenue Authorized by Local Act

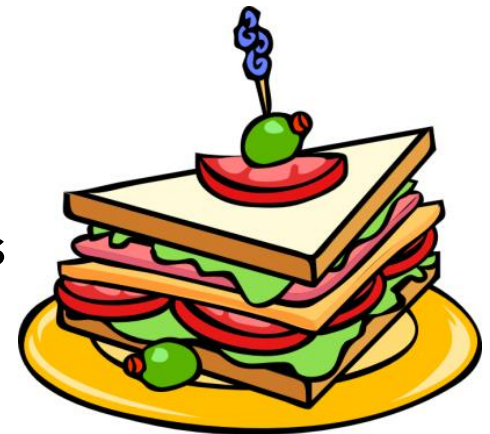
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## □ Occupancy Taxes

- ▣ Levied on occupancy of rental accommodations
- ▣ Taxes typically range from 3%-6%
- ▣ House Finance guidelines require at least two-thirds of expenditures to be used for promotion of travel and tourism
- ▣ The remainder can be used for tourism-related expenses

## □ Meals Taxes

- ▣ Typically 1%
- ▣ Levied on prepared food and beverages



QUESTIONS?